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The impact of effectuation on the buying decisions of small firms.

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Abstract

Purpose *– This study considers the effect of effectuation logic on the buying intentions of small firm owner-managers.*

Design/methodology/approach *– Literature relating to organisational buying, marketing and personal selling and entrepreneurial decision making was synthesised.*

Findings *– This paper presents a conceptual model based on propositions relating to how effectuation logic may explain the predilection of small firm owner-managers to select trusted suppliers from within personal and business networks, and to engage on flexible terms. It suggests that supplier relationship decisions made using effectuation logic may enable wider choice of suppliers than the formal processes of large firms.*

Research limitations/implications *– The findings were developed from a narrative review of literature and are yet to be empirically tested.*

Originality/value *– By synthesising research findings on small firm buyer behaviour, the IMP Interaction approach and effectuation, it has been possible to develop a predictive model representing buyer-seller relationships in the context of small firms which suggests that owner-managers select suppliers in line with the principles of effectuation means and effectuation affordable loss.*

1. Introduction

Salespeople accept that more sales opportunities are lost than won; indeed, this, according to leading Customer Relationship Management software vendor Salesforce.com, could mean that as few as 6% of business-to-business sales opportunities become orders (Raichshtain, 2014); simply put, 94% of all sales attempts lead to failure. While there is a substantial corpus of literature to inform salespeople, covering a broad range of topics (Pullins, Timonen, Kaski, & Holopainen, 2017), for example, buyer dissatisfaction with the seller's performance (Kaski, Hautamaki, Pullins, & Kock, 2017), organisation relationships (Heidenreich, Wittkowski, Handrich, & Falk, 2015; Sharma & Evanschitzky, 2016) and the importance of ethics (Bolander, Zahn, Loe, & Clark, 2015), there is a dearth of literature that deals directly with the causes of sales failure (Johnson, Friend, Rutherford, & Hamwi, 2016). This lack of extant literature coupled with such a high sales failure rate, suggests this topic is worthy of further investigation.

IMP tradition conceptualises a dyadic relationship between buyers and sellers, with the success of the firm being significantly related to both its customer and supplier relationships (Bordonaba-Juste & Cambra-Fierro, 2009; Snehota & Hakansson, 1995; Turnbull, Ford, & Cunningham, 1996). IMP-related studies indicate an average relationship length of over twelve years (Hakansson, Ford, Gadde, Snehota, & Waluszewski, 2009). Yet, fewer than half of all new small firms will remain in business for longer than five years (Paik, 2011), which suggests that for many, business relationships will be shorter in duration than those of larger firms. Small firms are by definition smaller and markedly different in terms of structure, culture, organisation, operations, market and buyers (Huin, Luong, & Abhary, 2002; Kavak, Tunçel, & Özyörük, 2015; Lenny Koh, Demirbag, Bayraktar, Tatoglu, & Zaim, 2007). They have less expertise, are less able to plan, are more vulnerable to external forces, and carry the liability of newness (Beekman & Robinson, 2004; Morrissey & Pittaway, 2006; Thakkar, Kanda, & Deshmukh, 2008b); moreover, unlike their larger counterparts, which have better educated and more experienced managers, small firms operate more informally and in more individual ways (Kavak et al., 2015; Morrissey & Pittaway, 2006; Seung-Kuk, Bagchi, Skjøtt-Larsen, & Adams, 2009; Thakkar, Kanda, & Deshmukh, 2008a). This difference suggests that the tools and techniques used to sell to large firms may be inappropriate in a small firm environment. A deeper understanding of how buying decisions are made by small firm owner-managers, would therefore be of interest to both academics and practitioners alike.

This paper responds to the call for further investigation into small firms within an IMP perspective with a focus on resource limitation (Bocconcelli et al., 2016). Furthermore, it attempts to bridge the "distance between established IMP research and research streams in small business management and entrepreneurship" (Bocconcelli et al., 2016, p. 9). The lack of extant literature that describes the constructs of small firm buying behaviour through the lens of entrepreneurial theory suggests that conceptual description is relevant and useful (Britt, 2014). This paper adds to academic knowledge by exploring the purchasing behaviour of small firm owner-managers through the lens of effectuation logic (Sarasvathy, 2009). It is proposed that when selling to small firms, sellers should deploy adaptive skills (Weitz, Castleberry, & Tanner, 2011) to identify when the buying decision will be affected by effectuation logic (Sarasvathy, 2009). Having identified where this is the case, they need to deploy solutions that keep perceived risks to a level that small firm owner-managers believe to be affordable, so as to avoid sales failure (Dew, Sarasvathy, Read, & Wiltbank, 2009).

This paper proceeds as follows: First it presents a review of literature starting with effectuation logic (Sarasvathy, 2001b), then it considers constructs relating to small firm buying behaviour with propositions proposed in relation to buying under uncertainty, supplier selection through networks and risk management through relationships. A short description of the conceptual development methods used is followed by presentation of a conceptual model and a discussion. The final section outlines conclusions, implications and limitations of this research.

2. Literature review

2.1. Effectuation

Effectuation theory (Sarasvathy, 2001a) posits that entrepreneurs think, make decisions and act differently than decision makers in large organisations (Dew et al., 2009; Read & Sarasvathy, 2012; Sarasvathy, 2001b). It is a theory that seeks to explain how decisions can be made in a situation of uncertainty (Sarasvathy, 2001b). Scholars have categorised decision making into the topologies of causal and effectuation logic (Fisher, 2012; Sarasvathy, 2001b; Sarasvathy & Dew, 2005; Senyard & Baker, 2011). Causal decision making describes how a business identifies a goal, then determines the best resources and actions to achieve that goal (Sarasvathy, 2001b). Effectuation logic describes how, when faced with uncertainty, an entrepreneur will rely on their personal means, skills and knowledge to arrive at a decision (Fisher, 2012). "Effectuation is the inverse of causation. Effectual reasoning is not merely a deviation from causal reasoning; it is a distinct mode of reasoning based on an entirely separate logic than the logic behind causal reasoning" (Sarasvathy, 2001b, p. 1). Through the concepts of effectuation "means" and "affordable loss", the decision to invest in a new venture can be conceptualised as a buying decision (Dew et al., 2009).

Effectuation logic is based upon five principles which provide a framework for decision making:

1. Means are the resources of "who I am", "what I know" and "whom I know" (Sarasvathy, 2001b, p. 78). They are called 'means' because they are readily available to the entrepreneur.
2. Partnership, which is the desire and ability to share both opportunity and risk in the venture (Sarasvathy, 2009), or to create new opportunity by recruiting a partner (Welter, Mauer, & Wuebker, 2016).
3. Leverage contingency, is the ability to welcome problems as opportunities and to change business direction to gain the best possible advantage;
4. Affordable loss, is the sum of time and money available that may be lost without causing the absolute failure of the venture (Sarasvathy, 2009). When faced with an investment decision from which the overall return on investment is unclear, a small firm owner-manager may choose to consider the downside of the decision, specifically the impact to the venture should the investment decision lead to a loss. With this in mind, affordable loss provides a useful lens through which an owner-manager of a small firm may be more able to commit to action if they know that the risk has been controlled to one that is affordable (Dew et al., 2009).
5. Control the controllable. The above principles provide different ways in which a decision can be determined. Yet, in situations of uncertainty the decision maker may not be able to shape or control everything that may impact their decision. Effectuation logic posits that the entrepreneur identify, then focus on the elements of the environment that can be partially or fully controlled (Sarasvathy, 2009).

Effectuation (in entrepreneurship) is rooted in venture selection and formation with such decisions by definition made under uncertainty (Sarasvathy, 2009). Yet, it is also claimed to be a useful approach for driving corporate innovation with affordable loss claimed to positively impact overall firm performance (Roach, Ryman, & Makani, 2016). Effectual thinking and processes are also claimed to be useful decision making tools in high growth sectors (Futterer, Schmidt, & Heidenreich, 2018). Furthermore, use of effectual thinking has been identified in the decision making processes of production managers in large manufacturing organisations (Brettel, Bendig, Keller, Friederichsen, & Rosenberg, 2014). This suggests that effectuation theory may explain decision making in a wider business context. With this in mind, use of effectuation in respect of investment can be seen as analogous to a small firm owner-manager making a buying decision.

Not all scholars support effectuation logic as a theory. The principles of effectuation means and effectuation affordable loss may be explainable thorough existing marketing constructs, while the development of effectuation logic may not be subject to the rigour required for it to be considered an academic theory (Arend, Sarooghi, & Burkemper, 2016). Yet, while effectuation logic does indeed stand alongside marketing theory, it provides a useful theoretical lens through which to explain empirical findings (Mäensivu, Toivonen, & Tammela, 2017). Unsurprisingly, the founding scholars claim that effectuation logic continues to attract considerable support from those who feel it should be classed as an academic theory (Chandler, DeTienne, McKelvie, & Mumford, 2011; Dew, Read, Sarasvathy, & Wiltbank, 2010; Dew et al., 2009; Nielsen & Lassen, 2012; Roach et al., 2016; Sarasvathy, 2001b). Furthermore, while effectuation has its roots in entrepreneurial venture creation (Sarasvathy, 2001b), recent empirical studies have broadened its application to incorporate a wider range of business situations and decisions (Jisr & Maamari, 2017; Mäensivu et al., 2017).

2.2. Comparison of small and large firm buying behaviour

Supplier relationships differ between large and small firms in terms of the selection of buying strategy and selection of buyer (Ellegaard, 2006). While larger firms have the ability to employ professionally trained buyers, small firms often lack dedicated resources, which leads to the owner-manager taking personal control (Adams, Davis, Stading, & Kauffman, 2013). While it may well be the case that a lack of resources forces small firm owner-managers to become personally involved, these owner-managers may also be making a conscious decision to take personal control of buying decisions. Indeed, this is because such buying decisions may create financial risks for the firm, which in turn could carry significant personal financial consequences (Ellegaard, 2009). To minimise buying risks, small firm owner-managers might well prioritise suppliers from within personal or business networks and, where available, could exhibit a preference to buy under flexible contract terms (Ellegaard, 2006, 2009; Morrissey & Pittaway, 2006). Personal control of buying also enables small firm owner-managers to control the price paid to suppliers. As input price is an important factor when it comes to overall profitability, control of price enables profits to be maximised (Adams et al., 2013; Morrissey & Pittaway, 2006; Thakkar et al., 2008a).

Owner-managers taking personal control of buying affects decision making criteria. Personal control of buying leads to buying being deemed a low priority task, undertaken only when necessary, handled with less formality, using opinions rather than facts, and with buying decisions made faster than those made by larger firms (Ellegaard, 2006). "Small company owners suffer from limited purchasing experience. They are not educated buyers, but rather self-taught producers… [and] they rely on subjective (or even unprofessional) criteria when selecting suppliers" (Ellegaard, 2006, p. 280). Another consequence of owner-managers attaching a low priority to buying is their lack of understanding when it comes to the purchasing marketplace and the range of options available to them (Seung-Kuk et al., 2009). However, this reported "instinctive approach to purchasing" (Ellegaard, 2006, p. 280) does appear to work, thus suggesting that alternative processes exist and work successfully.

	Large firms	*Small firms*
Business relationships	*IMP studies report relationships averaging 12 years (Hakansson et al., 2009)*	*Half of small firms close within five years, which suggests shorter relationships (Paik, 2011)*
Business and specialist expertise	*High levels of expertise (Adams et al., 2013)*	*Low levels of expertise and a liability of newness (Beekman & Robinson, 2004)*
Management	*Better educated in purchasing and more experienced managers (Ellegaard, 2006)*	*Less educated in purchasing and less experienced managers (Ellegaard, 2006)*
Who buys?	*Professionally trained buyers (Adams et al., 2013)*	*Owner-manager (Ellegaard, 2009)*
Buying criteria	*Formal buying criteria (Adams et al., 2013)*	*Informal, often based upon opinions rather than facts (Ellegaard, 2009)*
Selection of supplier	*Whole market (Seung-Kuk et al., 2009)*	*Personal or business networks (Morrissey & Pittaway, 2004)*
Priority of buying task	*High priority – planned and organised in line with business strategy (Adams et al., 2013)*	*Low priority - ad-hoc buying only when necessary (Ellegaard, 2009)*

Table 1: Comparison of buying behaviour between large firms and small firms

2.3. Small firms buying under uncertainty

Small firms are vulnerable to unexpected changes (Morrissey & Pittaway, 2006). They have limited financial and human resources (Morrissey & Pittaway, 2006; Paik, 2011). Furthermore, "in an open economy scenario, giant multinational enterprises drive the market. Faced with high levels of uncertainty in demand, low margins and very high working capital requirements, small firms are simply unable to take full advantage of most market opportunities that come their way" (Thakkar, Kanda, & Deshmukh, 2009, p. 979). With a potentially short life expectancy and larger firms dominating their marketplace, for small firms, the situation appears to be one of uncertainty.

From an IMP perspective, buyers and sellers interact within a wider network where actors who are unknown, may affect their business environment (Gadde & Hakansson, 2011). Interpersonal relationships developed between buyers and sellers offer the impression of knowability, with each party feeling able to assess mutual competence and trustworthiness. Accordingly, decisions made by such buyers and sellers are considered to be made within a knowable, potentially controllable environment (Hakansson et al., 2009).

Yet, all organisations operate within a wider network (Rezaei, Ortt, & Trott, 2015; Singh, 2011; Tan, Smith, & Saad, 2006). Within this wider network, actors who are far removed and unknown to each other are able to impact the world and to do so in ways that a buyer or seller cannot predict or control, which leads to uncertainty (Hakansson et al., 2009; Lenny Koh et al., 2007).

Small firms, like larger firms, operate in a more complex, networked world than may be immediately obvious (Bocconcelli et al., 2016). Due to limited resources they may be more dependent on their network, with interdependencies leading to uncertainty and in this environment, it is plausible that the uncertainty felt by owner-managers has consequences for their selection of suppliers and buying decisions.

Small firm owner-managers and professional buyers within larger firms use different buying strategies. Professional buyers base their decisions on a market-wide evaluation, as well as firm related factors including financial and supply risks (Seung-Kuk et al., 2009). However, with a small firm, the buyer is often the owner-manager, who handles buying tasks as part of a myriad of other duties needed to keep the business running, with current needs prioritised over the implementation of a buying strategy (Ellegaard, 2006; Morrissey & Pittaway, 2006; Thakkar et al., 2009). This difference in who buys suggests markedly different decision criteria (Ellegaard, 2009).

Small and large firms view suppliers differently. Large firms appear to use strategic tools to select suppliers that match their strategic objectives (Bygballe & Persson, 2015). They leverage the ability of a supplier to provide innovation, scale of operations, quality of purchased goods, and levels of services to innovate, scale and service their own customers (Adams, Kauffman, Khoja, & Coy, 2016). Yet, a small firm owner-manager appears more likely to consider supplier relationships as a tactical way to buy the goods and services that they need to deliver to fulfil their current customer promises (Ellegaard, 2009). This suggests that small firms appear not to leverage the resources of their suppliers for growth or competitive advantage (Ellegaard, 2009).

The relationship that a small firm owner-manager has with their supplier may itself be a cause of uncertainty. As small firms lack internal resources, they are more reliant on their suppliers than larger firms (Ellegaard, 2009). Owner-managers require their suppliers to be trustworthy and capable of keeping their promises. Moreover, should something go wrong, these suppliers are expected to provide the resources needed to put it right; failure to do so may promote supplier switching (Ellegaard, 2006; Mudambi, Schründer, & Mongar, 2004; Thakkar et al., 2009). Furthermore, as small firms are less able to plan than larger firms, owner-managers prefer buying arrangements to remain flexible and to avoid long-term supplier contracts, which may suggest that there is a tacit understanding that their situation is one of uncertainty (Ellegaard, 2009; Jisr & Maamari, 2017; Quayle, 2002).

As previously mentioned, buying may expose a business to losses. When buying, losses may result from interaction between any part of the network including the supplier, the buyer and the customer (Hakansson et al., 2009) thus suggesting that supplier failure could lead to the buying firm failing to meet the expectations of their end customer; this, in turn, may lead to customer dissatisfaction and lost business (Chen, Dooley, & Rungtusanatham, 2016). The predilection of small firm owner-managers to use suppliers who they know to be trustworthy, reliable, able to provide resources to resolve problems and offer flexible commercial terms, appears to suggest a desire to avoid loss (Dew et al., 2009).

When considering how owner-managers undertake buying, there is a striking similarity between their behaviour and effectuation logic (Dew et al., 2009). Effectuation logic (Sarasvathy, 2009), in relation to small firm buying, suggests that owner-managers may deal with the uncertainty of their situation by preferring to deal with suppliers they know and trust; they seek to avoid loss by constraining their financial exposure to the sum of money they can afford to lose, without causing lasting harm to their venture (Dew et al., 2009). These owner-managers also use their own skills and knowledge (Ellegaard, 2009) or enter into partnerships with people who have available resources so as to reduce their costs (Dew et al., 2009; Dew, Sarasvathy, & Venkataraman, 2004; Sarasvathy, 2009). Indeed, all of this leads to:

Proposition 1: small firm owner-managers cope with uncertainty by selecting suppliers in line with the effectuation principle of affordable loss.

2.4. Supplier selection through networks (owner-manager networking)

Small firm owner-managers develop relationships with suppliers' salespeople through networking. In buyer-supplier relationships, trust is conceptualised as confidence (Ellegaard, 2009), which is developed through shared social experience, ethical alignment and mutual respect (Morrissey & Pittaway, 2004). When a small firm owner-manager considers trust in relation to a new supplier, this often relates to the supplier's reputation and brand; moreover, after supplier performance has been experienced, it takes the form of the ability to trust that a supplier will keep its promises (Cambra-Fierro & Polo-Redondo, 2009; Morrissey & Pittaway, 2004, 2006). Small firm owner-managers consider trust to have been broken when deliveries are missed, goods or services fail to live up to quality expectations, or there is a breach of any other promises made by the supplier. Suppliers' abuse of power and opportunistic behaviour also constitute a breach of trust. The most significant breaches of trust impact the ability of the owner-manager to deliver their promises to their customers; indeed, when this happens, it may lead to relationship breakdown and loss of repeat business (Ellegaard, 2006; Mudambi et al., 2004; Thakkar et al., 2009).

When selecting a supplier, a small firm owner-managers may consider the size, scale and capability of the supplier's production operation and ability to provide the required volumes as the owner-manager's business grows (Thakkar et al., 2008b) as well as its ethical stance (Morrissey & Pittaway, 2004). Factors that appear to not be as important to supplier selection include the suppliers' ability to purchase, or their ability to innovate, which is surprising given that these factors are recognised by small firm owner-managers as important to their ability to serve their own customers (Beekman & Robinson, 2004; Kavak et al., 2015; Morrissey & Pittaway, 2006; Thakkar et al., 2008a).

Personal relationships with suppliers enable small firm owner-managers to overcome abuse of power by larger suppliers. It is claimed that small firm owner-managers may "come to regard her/his supplier network as an extension of their private social network" (Ellegaard, 2006, p. 276) and that small firm owner-managers like to prioritise "suppliers of similar mentality, characterised by mutuality, a relaxed social attitude and a focus on technical rather than economic exchange. Furthermore, access to decision makers is more easily achieved in exchange with smaller suppliers" (Ellegaard, 2006, p. 276). With this in mind, it would appear that perceived honesty and fairness of suppliers, built through business and personal relationships promote loyalty and therefore repeat orders (Ellegaard, 2006, 2009).

In summary, small firm owner-managers are time and resource limited, thus meaning that they need trusted suppliers to enable them to keep their promises to their customers. Suppliers are selected based on personal relationships, with primary emphasis placed on the ability to trust the supplier to deliver on their promises. Indeed, this leads to:

Proposition 2: Small firm owner-managers leverage personal and business networks when selecting suppliers in line with the effectuation principle of means, whom I know.

2.5. Risk management through relationships

Buying behaviour of small firm owner-managers is directed towards activities that help their organisation to meet their customers' needs (Kavak et al., 2015; Quayle, 2002). When customer satisfaction is considered through the lens of the IMP interaction approach, the actions of a supplier may impact the ability of the buying firm to meet the needs of their eventual customer; this leads to the emergence of a pattern that suggests that a small firm owner-manager may prioritise factors that increase the satisfaction of their customers over buying at the lowest price (Ellegaard, 2009; Kavak et al., 2015).

As previously mentioned, buying decisions have the potential to create risk. Small firms lack the scale, ability to plan and the resources needed to adopt professional purchasing strategies; instead, they rely on supplier adaptability (Ellegaard, 2009; Seung-Kuk et al., 2009; Thakkar et al., 2009). As purchasing needs are uncertain, with changing requirements, often necessitating a fast, accurate response, the adaptiveness and reactiveness of the supplier will determine who wins the business (Ellegaard, 2009; Thakkar, Kanda, & Deshmukh, 2012). Should things go wrong, small firm owner-managers value access to technical or logistical support to help them put them right, again relying on the adaptability of the supplier to provide the required knowledge and resources (Cambra-Fierro & Polo-Redondo, 2008; Ellegaard, 2009; Kavak et al., 2015; Seung-Kuk et al., 2009; Wynarczyk & Watson, 2005). As buying risks have the potential to personally affect small firm owner-managers, it seems feasible that offering risk reduction as part of the sales pitch would give potential suppliers a competitive advantage (Ellegaard, 2009).

Small firms use supplier adaptiveness to manage uncertainty and risks created by buying decisions (Bordonaba-Juste & Cambra-Fierro, 2009; Morrissey & Pittaway, 2006). Uncertainty reduces the ability to plan and increases the need for reactive purchasing, thus requiring suppliers to accommodate last minute orders, offer faster delivery, and have sufficient technical and logistical resources to support the small firm owner-manager (Beekman & Robinson, 2004; Ellegaard, 2009). This suggests that when uncertainty or risk are perceived, the adaptiveness of the supplier becomes a more important buying criterion than price (Bordonaba-Juste & Cambra-Fierro, 2009; Morrissey & Pittaway, 2006).

From a selling perspective, adaptive selling encourages salespeople to understand customer requirements and adapt their sales offer to meet said requirements (Weitz, Sujan, & Sujan, 1986). Failure on the part of salespeople to adapt the sales offer or manage buyer-seller relationships to meet customer needs and expectations is a significant cause of sales failure (Friend, Curasi, Boles, &

Bellenger, 2014). Adaptiveness is required not only at the buyer-seller relationship level, but also at the inter-organisational relationship level, with the sales offer adapted to meet not only specified product and service requirements, but also the relationship requirements of the small firm owner-manager (Friend et al., 2014).

To meet the needs of small firm owner-managers, salespeople must understand their relationship requirements and ensure that their organisation is fully engaged with a relationship selling strategy (Wilson & Woodburn, 2014). Furthermore, salespeople should build a social network within their firm to orchestrate intra-organisational relationship development, thus enabling their wider organisation to become adaptive to the customers' needs (Kothandaraman, Dingus, & Agnihotri, 2014; Widmier & Jackson Jr, 2002); if this is achieved, then should things go wrong, the selling firm will fully understand the importance of adapting to meet the needs of the small firm owner-manager, as failure to do so may promote supplier switching (Beekman & Robinson, 2004; Ellegaard, 2009; Morrissey & Pittaway, 2004).

In return for adequate performance, small firm owner-managers offer continued supplier loyalty in the form of repeat orders that are not significantly price sensitive. Yet, should supplier performance, which is characterised by supplier adaptiveness and responsiveness, drop below an adequate level, repeat business will be at risk, with even high-quality buyer-supplier relationships not able to prevent loss of business. This suggests that small firm owner-managers recognise the wider interaction between their firm and that of their suppliers, with the consequence that inter-personal buyer-supplier relationships are secondary to the inter-firm relationship, as seen by examining the overall performance of the supplier (Beekman & Robinson, 2004; Ellegaard, 2009; Morrissey & Pittaway, 2004).

There is general agreement in the literature that partnerships require mutual commitment, significant resources, scale of operations, and a significant amount of time to pass before the partnership delivers success (Beekman & Robinson, 2004; Mudambi & Schründer, 1996; Wynarczyk & Watson, 2005). Yet, a lack of resources and small scale of operation are characteristics that appear to define a small firm. Furthermore, there is evidence that long-term relationships may suffer due to buyer-expectations of increased service and reduced prices, thus affecting long-term profitability (Sharma, 2007). With this said, however, there is evidence that small firm owner-managers prefer to build effective partnerships, and this preference is a prime determinant of supplier selection (Adams, Khoja, & Kauffman, 2012; Bolander, Satornino, Hughes, & Ferris, 2015; Bordonaba-Juste & Cambra-Fierro, 2009; Cambra-Fierro & Polo-Redondo, 2009; Thakkar et al., 2009). This suggests that to maintain profitable sales to a small firm owner-manager, a supplier needs to understand how much service and backup was assumed at the point of decision, and is therefore expected by the small firm owner-manager.

When viewed through the lens of effectuation it seems likely that potential risks created as a result of business relationships are assessed by small firm owner-managers using the principle of effectuation affordable loss (Dew et al., 2009; Sarasvathy, 2001b). In cases where a loss is deemed to be low the small firm owner-manager may prioritise price; conversely, in cases where risk is deemed to be high, supplier adaptiveness may be prioritised. Furthermore, the importance of supplier adaptiveness may also be assessed through the effectuation principle of means, which consists of “who I am, what I know and whom I know” (Sarasvathy, 2001b, p. 78). Should the small firm owner-manager conclude that they, or their firm, have the means to deal with perceived risks, they may prioritise price; conversely, if risks cannot be managed using available means, supplier adaptiveness may be prioritised. Nevertheless, as previously discussed, small firm owner-managers do value supplier relationships and will prioritise supplier adaptability over price (Cambra-Fierro & Polo-Redondo, 2008; Ellegaard, 2009; Kavak et al., 2015; Seung-Kuk et al., 2009; Wynarczyk & Watson, 2005). Indeed, this leads to:

Proposition 3: When making buying decisions, where internal means exist to mitigate risks to an affordable level, small firm owner-managers may prioritise lower prices, but only to the extent that the supplier is still able to demonstrate adaptiveness.

3. Conceptual development

This paper was developed using conceptual deduction (Meredith, 1993). By synthesising literature pertaining to small firm buying behaviour, IMP interaction and effectuation logic (Sarasvathy, 2009), it has been possible to propose new relationships (Gilson & Goldberg, 2015). A predictive model representing buyer-seller dynamics in the context of small firms is presented in figure 1.

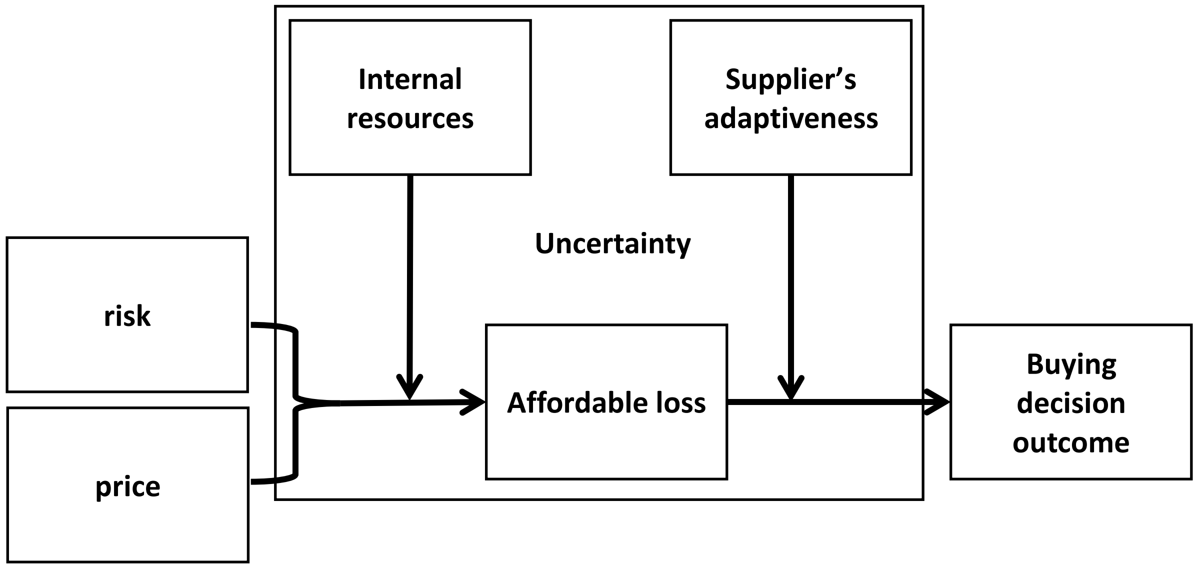

Figure 1: Effect of effectuation logic on sales outcome.

Literature appears to suggest a continuum relating to the trading relationships which can serve as a grading system with which to measure the impact that the purchased goods or services have on the ability of the small firm owner-manager to fulfil the expectations of their customers (Ellegaard, 2009; Rezaei et al., 2015; Thakkar et al., 2008a). The greater the risk that the purchase poses to the small firm owner-manager's customers, the greater the need for losses to be managed to a level of affordability (Dew et al., 2009; Seung-Kuk et al., 2009). Whereas large firms are likely to reduce risk by using formalised purchasing procedures to select suppliers and make purchasing decisions (Seung-Kuk et al., 2009), it appears that small firm owner-managers may use the principles of effectuation affordable loss and effectuation means to identify and manage potential loss (Dew et al., 2009; Sarasvathy, 2001b).

The relationships illustrated in the model are as follows:

Price and risk. Price refers to the cost of the goods or services as paid by the small firm owner-manager to the supplier. Risk refers to the potential (or real) risk inherent within business relationships that a buying decision will introduce to the small firm owner-manager's firm (Ellegaard, 2009; Rezaei et al., 2015; Thakkar et al., 2008a). Price and risk appear to be assessed by small firm owner-managers in a similar way to professional buyers, albeit without necessarily having access to information about the whole market, but decisions appear to be made using a different logic. In large firms this is operationalised by using professional purchasing techniques to reduce price while avoiding risk. In small firms this is operationalised by the owner-manager making a personal judgement of risk then attempting to manage it to an affordable level through their selection of a supplier from within their network, that is trusted to remain adaptable, while offering an affordable price (Dew et al., 2009; Ellegaard, 2009; Seung-Kuk et al., 2009).

Internal resources are related to the principle of effectuation, means “what I know and who I am” (Sarasvathy, 2001b, p. 78). They are determined by the sum of skills, knowledge and available staff that the small firm owner-manager has available from within their current organisation, to either alleviate problems caused by supplier failure in the supply chain, or protect their customers from the same situation. A greater depth of resources lowers risk, thus suggesting that supplier backup is less important, and consequently enabling the small firm owner-manager to demand lower prices.

Owner managers appear to use the principle of effectuation, affordable loss (Dew et al., 2009) to determine the acceptable level of risk. If risks are higher than can be managed using internal resources, supplier adaptability may offer a way to reduce potential loss to an affordable level (Dew et al., 2009).

Supplier adaptiveness concerns the degree to which a supplier adapts their sales and relationship offer, as well as the depth of backup that the supplier will provide to a small firm owner-manager (Cambra-Fierro & Polo-Redondo, 2008; Ellegaard, 2009; Kavak et al., 2015; Seung-Kuk et al., 2009; Weitz et al., 2011; Wynarczyk & Watson, 2005). The principle of effectuation means, “whom I know” (Sarasvathy, 2001b, p. 78) offers an explanation as to why small firm owner-managers have a predilection to leverage their network to identify suppliers on whom they can rely (Ellegaard, 2006; Mudambi et al., 2004; Thakkar et al., 2009). Supplier adaptiveness may also relate to the principle of effectuation partnership, through which the small firm owner-manager is able to access resources that they would otherwise be unable to leverage (Sarasvathy, 2001b, p. 78). Supplier adaptiveness moderates price, as the greater the small firm owner-manager’s reliance on supplier adaptiveness to reduce loss to an affordable level, the more they will be prepared to pay for it.

Uncertainty is represented in the model as a combination of internal resources, affordable loss (Dew et al., 2009; Sarasvathy, 2001b) and supplier adaptiveness (Cambra-Fierro & Polo-Redondo, 2008; Ellegaard, 2009; Kavak et al., 2015; Seung-Kuk et al., 2009; Weitz et al., 2011; Wynarczyk &

Watson, 2005). Uncertainty is managed through determining how much loss can be afforded, how many internal resources exist to mitigate supplier failure and how adaptive the supplier will be should they need to rectify a failure.

Buying decision outcomes are related to the final decision made by the small firm owner-manager. If the potential for loss can be managed to an affordable level, then a decision to purchase may be made; conversely if the sum of risk, price, internal resources and supplier adaptiveness does not lower loss potential to that which is deemed affordable, a small firm owner-manager may decide to seek alternatives or not to proceed with a purchase (Dew et al., 2009; Sarasvathy, 2001b).

4. Discussion

The model presented adds to theory by including the impact of affordable loss (Dew et al., 2009) and assessment of internal resources to the buying decision outcome. While extant literature tells us that a buyer will factor price and risk into their purchasing decision (Kraljic, 1983) and it has long been known that to avoid failure, salespeople should adapt their offer to suit the needs of the customer (Weitz et al., 1986), the impact of constructs associated with entrepreneurial behaviour provides a different lens through which to view the decision making of a small firm owner-manager.

Affordable loss (Dew et al., 2009) provides an economic model which suggests that a small firm owner-manager will only risk what they can afford to lose. When operationalised as a buying decision, potential loss can be considered in both monetary and non-monetary terms. Direct financial loss may be accounted for in many ways including paying too much, buying incorrect or unsuitable goods, ordering the wrong quantity or dealing with an unreliable supplier. Yet, when the IMP interaction approach is considered (Hakansson et al., 2009) buying decisions of a small firm owner-manager may affect the ability of their firm to service their customers. This suggests that failure to buy correctly or select the right goods from a reliable supplier may negatively impact the satisfaction or their customers. Dissatisfied customers can lead to potentially lost orders, lost customers, reputational damage and in extremis, loss of a gateway customer, potentially leading to loss of market access.

Operationalising affordable loss (Dew et al., 2009) within buying decisions enables small firm owner-managers to evaluate purchasing decisions using a different lens from that used by larger firms. Controlling loss to that which is affordable, may provide the freedom to experiment with supplier choice and may provide a competitive edge. By constraining loss to one that is affordable, small firm owner-managers may choose to select suppliers who may be seen as too risky or immature by larger firms. This may provide cost advantage and/or access to newer, less established entrepreneurial firms that might in turn provide innovative products and services. The overall combination of cost and innovation may offer the small firm owner-manager's firm a competitive edge.

Dealing with less established or innovative firms may expose the buying firm to more risk. Yet, it would appear that risk may be managed by a small firm owner-manager through selection of suppliers from within their network in line with the principle of effectuation "whom I know" (Sarasvathy, 2001b, p. 78). Selection of suppliers whom are personally known to the small firm owner-manager appears to enable assessment of the adaptability of the suppler, their trustworthiness and the likelihood of them resolving problems should things go wrong.

In respect of internal resources, the model suggests that the value of supplier backup offered will depend on the availability of internal resources. Whereas a lack of internal resources may increase the perceived value of a supplier's offer, already having the required resources will reduce perceived value. When a small firm owner-manager factors in the cost of maintaining internal resources so as to protect from supplier underperformance vs. the backup offered by the supplier, the overall value proposition presented by the seller will change. Sellers need to be cognisant that the internal resources available to a small firm owner-manager may affect the price that they are prepared to pay.

When viewed through the lens of the IMP interaction approach (Hakansson et al., 2009) it could be claimed that the location of internal resources may not be important, providing that the required resources are readily available within the network of the small firm owner-manager. As such resources readily available in the wider network may be considered as internal, for the purposes of determining the buying decision outcome. The model presented further extends this concept through the addition of the effectuation principle of affordable loss (Dew et al., 2009), which many modify the outcome of the decision to hold internal resources or instead to rely on partnerships or suppliers. Larger firms may also find the model as presented to have merit in two ways. Firstly, extant selling literature conceptualises a dyadic relationship between buyer and seller. It recommends that salespeople consider the implications of their product or service and the value they can offer, to the party to whom they are selling and where appropriate, present a return on investment case (Rackham, 1988). Yet, when selling to a small firm owner-manager, who may be basing their decision on the effectuation principle of affordable loss (Dew et al., 2009), instead of a return on investment case, the buying decision outcome may differ due to the loss tolerance of the small firm owner-manager.

Secondly, in respect of large firms, when the buying outcome decision is considered through the lens of IMP network interaction (Håkansson, 1982; Hakansson et al., 2009; Snehota & Hakansson,

1995) it appears that buyer-seller transactions may have far wider consequences than may be initially obvious to sellers. Furthermore, internal resources may be considered to be available from not just the buying firm itself, but from within its wider network. In these circumstances, sellers should consider the scale of the network within which their customer operates and the availability and location of resources, then adapt their offer accordingly.

5. Conclusion

This study considered the impact of effectuation logic on the buying decisions of small firm owner-managers (Sarasvathy, 2001b). It proposes a new conceptual model in which the effects of effectuation logic were considered in relation to the predilection of small firm owner-managers to select trusted suppliers that offer sufficient available support resources to reduce potential losses to an affordable level, to use personal and business networks, and to engage with them on flexible terms (Cambra-Fierro & Polo-Redondo, 2009; Dew et al., 2009; Morrissey & Pittaway, 2004, 2006; Sarasvathy, 2001b).

Applying the IMP Interaction approach (Håkansson, 1982; Snehota & Hakansson, 1995) into the situation of small firms buying decision outcomes, appears to explain the challenge that owner-managers have when determining where and when to apply limited internal resources vs when to rely on the backup and support of supplier, in the event that things go wrong. Furthermore, applying the principle of effectuation affordable loss to the purchasing situation may explain why some purchasing decisions made by owner-managers appear more complex than can be explained by causal decision making processes (Dew et al., 2009; Sarasvathy, 2009). This combination of uncertainty and consideration of loss affordability provides a new lens through which to consider the operational decisions made by owner-managers in small firms.

From a practitioner perspective, explicit evaluation of internal resources vs supplier adaptiveness provides a lens through which an owner-manager in a small firm can use to determine buying decisions. When the trade-off between direct investments in internal resources vs reliance on supplier adaptiveness (with a potential for higher price) is explicit, it provides a useful managerial tool that can be used to help owner-managers in small firms evaluate and balance risk, when operating under uncertainty. Furthermore, having a better view of risk and control of loss to an affordable level potentially opens the ability to try out new suppliers who may be seen as immature or too risky by larger firms, this suggesting that the owner-manager may be able to secure lower prices and better service, which may lead to a competitive edge.

Viewed from the perspective of a supplier, one small firm is unlikely to offer scale or buying power. Yet, when aggregated, small firms offer a substantial business opportunity (Sharma, 2006). When seeking to become a supplier to a small firm, a supplier should consider the impact of their offer on the ability of the buying firm to meet the needs and expectations of its customers. Moreover, literature appears to suggest that, to be effective, two conditions must be met by a potential supplier. Firstly, to access the small firm market, a supplier must actively develop a network of social relationships with small firm owner-managers and develop their reputation for sincerity and trustworthiness; indeed, it is from within this network that suppliers will be selected (Adams et al., 2012; Bolander, Satornino, et al., 2015). Secondly, suppliers need to be adaptable to the needs of small firm owner-managers. While they value service over price, they also require flexible trading terms and due to poor planning and a lack of resources, they rely on their suppliers to deliver high levels of customer service and technical backup (Cambra-Fierro & Polo-Redondo, 2009; Ellegaard, 2009, 2012; Thakkar et al., 2008b). Furthermore, when a supplier has proven itself, small firm owner-managers appear to wish to become loyal customers and remain in long-term trading relationships (Cambra-Fierro & Polo-Redondo, 2008; Ellegaard, 2009; Kavak et al., 2015; Seung-Kuk et al., 2009; Wynarczyk & Watson, 2005).

From a research perspective, the conceptual model presented provides an innovative conceptual framework which links essential factors for small businesses and better delineates the effectuation principle of affordable loss (Dew et al., 2009; Sarasvathy, 2009), internal resources and supplier adaptiveness (Weitz et al., 1986), while operating under conditions uncertainty. Affordable loss has previously been associated with entrepreneurial venture creation related decisions (Dew et al., 2009). Yet, this study has shown that it could also be fundamental to small firm owner-manager buying decisions. Furthermore, at a theoretical level, it could be argued that the decision making process for buying goods or services may be similar to determining other business decisions that a small firm owner-manager may need to make. One example is the financial basis on which to hire a new member of staff. Applying the model to a hiring decision shows that whatever the up-side of new staff, unless the loss associated with a failed hire is affordable, the small firm owner-manager may not proceed. Similarly, developing new product development or new market entry have the potential for both upside and loss, suggesting that the principle of effectuation affordable loss (Dew et al., 2009) may be an important factor in the decision making process.

Although this study presented a new conceptual model in relation to small firm buyer-seller interactions, it is not without its potential limitations. One of the challenges encountered was to define the field of study, which was achieved through the use of conceptual deduction methods (Meredith, 1993). The topics suggested produced a vast corpus of potential studies that used a wide array of research methods. The broad array of research methods represented made it difficult to produce direct data comparisons.

Future research could use the findings of this study to reduce the number of search criteria, thus enabling the use of systematic search and analysis techniques (Tranfield, Denyer, & Smart, 2003). Furthermore, empirical studies could test the validity of the presented conceptual model in a wide range of situations including buying, recruitment and new product development, as well as across a range of different market sectors and geographical locations.

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